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INDUSTRIAL DEVELOPMENT BANK

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Annual Report to the Minister of Finance

AND STATEMENT OF ACCOUNTS

Fiscal year 1948

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INDUSTRIAL DEVELOPMENT BANK

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The Industrial Development Bank, subsidiary of the Bank of Canada established by Act of Parliament August 15th, 1944, commenced operations on November 1st, 1944. Its purpose is to extend financial assistance to sound industrial enterprises which are unable to obtain their requirements from other sources on reasonable terms and conditions. It is intended to supplement, rather than to compete with the activities of chartered banks and other lending organizations, and operates chiefly in the medium and long-term field.

Ottawa, December 9, 1948

The Hon. D. C. Abbott, K.C., M.P.,
Minister of Finance,
Ottawa.

Dear Sir, In accordance with the provisions of the Industrial Development Bank Act, I am enclosing herewith in duplicate a statement of the Bank's accounts for the fiscal year 1948 signed by the President and Chief Accountant and verified by the Auditors.

The statute provides that this statement should be accompanied by such summary or report by the President as he may deem desirable or as may be required by the Minister of Finance. The statute also provides for the publication at least once a year of a classification of the Bank's loans, investments and guarantees. We continue this year the practice established in earlier years of including this classification in the report because of its value in indicating the extent of the Bank's operations since inception. These operations necessarily reflect developments in the industrial field and I shall comment on this aspect in more detail at a later stage of this report.

Method of Operation Since commencement of its operations late in 1944, the Bank has taken a number of steps to acquaint the public with the facilities it can offer, a

subject which was dealt with in our first annual report. Descriptive pamphlets have been widely circulated through the Canadian Manufacturers' Association, Boards of Trade, chartered banks and other organizations; and travelling representatives of the Bank have visited a number of cities, other than those where our branches operate, in order to give prospective applicants the opportunity of discussing their problems at first hand and learning whether we can be of assistance to them.

I think it may be appropriate in the present report to mention again the kinds of enterprises which the Bank can assist, the nature of such assistance and the manner in which it is extended.

The purpose of the Bank is to provide financial assistance mainly to small and medium sized enterprises which are demonstrably sound but which might not otherwise be able to get credit on reasonable terms and conditions. The Bank is intended to supplement rather than compete with the activities of the chartered banks and other lending organizations. It may lend to firms engaged in the manufacture, processing or refrigeration of goods, the building of ships, or the generating or distributing of electricity. It should be noted, however, that the Bank is not empowered to make loans to primary industries such as farming or fishing, nor to trade or service establishments such as stores, garages, repair shops, theatres, etc.

The Bank's loans are usually for capital assistance rather than for working funds and extend over a period of several

years in contrast to the short-term loans typical in ordinary commercial banking. To enable it to extend this kind of assistance, the Bank may accept any form of collateral security including mortgages on real property. The security requirements of the Bank are not rigid and these, as well as the terms of repayment, are arranged to suit individual cases. Practically all applications are investigated at the applicant's place of business. In addition to satisfying the Bank's requirements, the results of these investigations are often beneficial to the applicants, particularly the smaller and medium sized enterprises, since they may result in suggestions for improvements in methods of operation, insurance coverage and in accounting procedure.

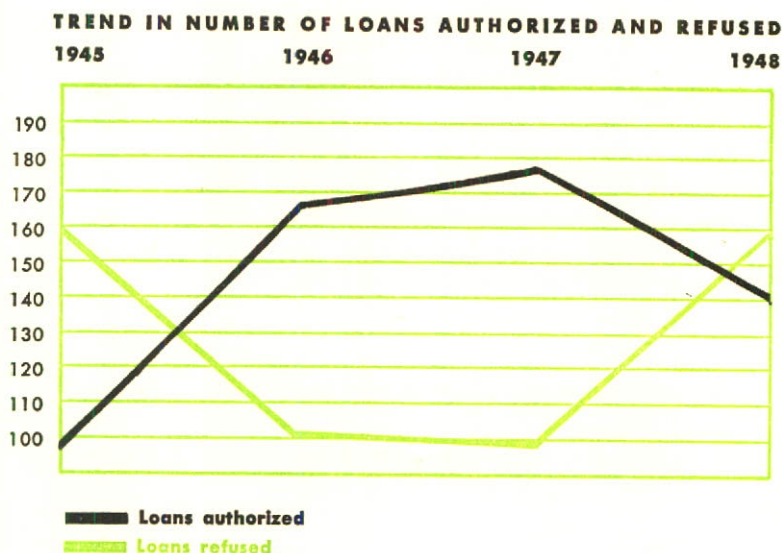
Loans. Investments and Guarantees. The combination of high cost of capital development and the state of the market for various types of consumers' goods, in which supply is tending to outstrip demand has made it desirable for the Bank—both in its own interest and in that of its customers—to scrutinize applications for credit with ever-increasing care. The following table reflects this situation:

NUMBER OF APPLICATIONS DEALT WITH

	Fiscal Year	1945*	1946	1947	1948
Authorized		97	169	177	143
Refused		160	103	97	159
Withdrawn		228	105	113	89
		485	377	387	391

*11 months only.

It will be noted that although the Bank has received a slightly greater number of applications in this past year, the number authorized was less than the previous year, and the number of applications refused, greater.



The following statement shows the extent of the Bank's lending business since its inception.

	NUMBER	AMOUNT
<i>Loans, investments & guarantees authorized:</i>		
November 1, 1944 to September 30, 1947	443	\$26,735,809
October 1, 1947 to September 30, 1948	143	12,291,815
Total	586	\$39,027,624

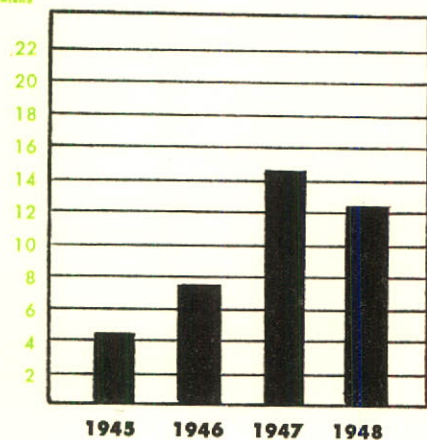
LESS :	NUMBER	AMOUNT
Cancellations of authorizations and reductions in amounts authorized:		
November 1, 1944 to September 30, 1947	94	\$ 4,408,425
October 1, 1947 to September 30, 1948 .	21	1,277,925
Total	115	\$ 5,686,350
Authorizations which have lapsed by reason of full repayments of loans:		
November 1, 1944 to September 30, 1947	27	\$ 1,150,450
October 1, 1947 to September 30, 1948 .	41	1,716,445
Total	68	\$ 2,866,895
Current authorizations as at September 30, 1948.	403	\$30,474,379
Reductions by reason of partial repayment:		
November 1, 1944 to September 30, 1947		\$ 1,418,897
October 1, 1947 to September 30, 1948 .		2,549,960
Total		\$ 3,968,857
Net authorizations as at September 30, 1948:	403	\$26,505,522
Disbursements:		
November 1, 1944 to September 30, 1947		\$15,770,654
October 1, 1947 to September 30, 1948 .		11,328,451
Total		\$27,099,105
Repayments:		
November 1, 1944 to September 30, 1947		\$ 2,440,659
October 1, 1947 to September 30, 1948 .		4,042,003
Total		\$ 6,482,662
Outstanding:		
Loans, investments and guarantees as at September 30, 1948		\$20,616,443

Credit authorizations of \$12,291,000 during the year were approximately \$2,400,000 less than those of the 1947 fiscal year.

While disbursements have been heavier during the year, repayments continue at a satisfactory rate and the amount of loans, investments, and guarantees outstanding as at September 30, 1948 is well below present lending resources.

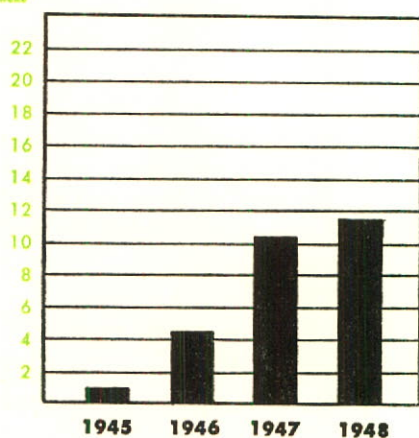
AUTHORIZATIONS

\$ Millions



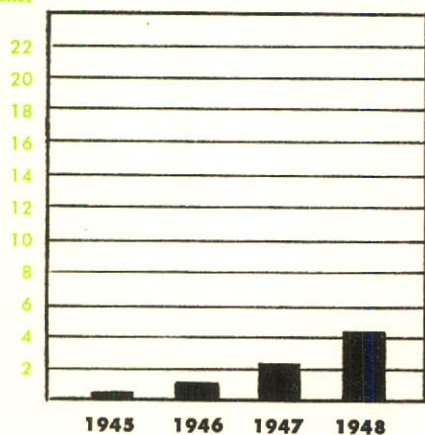
DISBURSEMENTS

\$ Millions



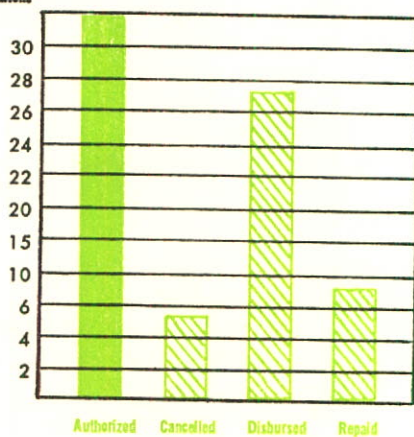
REPAYMENTS

\$ Millions



VOLUME OF TRANSACTIONS SINCE THE BANK'S INCEPTION

\$ Millions



Classification of Loans, Investments and Guarantees

A. By Industrial Enterprises

	GROSS AMOUNT AUTHORIZED TO DATE*	GROSS AMOUNT AUTHORIZED DURING THE FISCAL YEAR 1948.	CURRENT AUTHORIZA- TIONS AT SEPTEMBER 30, 1948.	AMOUNT OUTSTAND- ING AS AT SEPTEMBER 30, 1948.
1. Foods and Beverages	\$ 4,111,550	\$ 1,726,450	\$ 4,017,600	\$ 2,845,270
2. Tobacco and Tobacco Products				
3. Rubber Products	25,000	25,000	25,000	25,000
4. Leather Products	615,500	407,500	597,500	395,118
5. Textile Products (except clothing)	2,393,250	905,150	2,111,600	1,400,456
6. Clothing (Textile & Fur)	1,064,825	311,875	709,200	437,029
7. Wood Products	3,869,873	1,566,473	3,526,050	2,281,319
8. Paper Products (including Pulp)	4,101,700	521,500	3,980,700	3,416,625
9. Printing, Publishing & Allied Industries	1,197,689	770,689	1,136,000	918,515
10. Iron and Steel Products (including Machinery & Equipment)	4,360,493	1,731,430	3,732,229	2,698,250
11. Transportation Equip- ment	1,111,646	500,300	993,250	734,619
12. Non-Ferrous Metal Products	35,000	15,000	35,000	9,111
13. Electrical Apparatus & Supplies	679,500	519,000	675,500	406,492
14. Non-Metallic Mineral Products	2,269,974	455,750	1,832,000	1,457,243
15. Products of Petroleum & Coal	801,000	405,000	766,000	543,064
16. Chemical Products	3,112,326	551,500	3,108,500	1,486,538
17. Miscellaneous Manu- facturing Industries	971,743	423,743	695,000	329,262
18. Refrigeration	2,525,205	1,360,455	2,438,250	1,147,532
19. Generating or Distri- buting of Electricity	95,000	95,000	95,000	85,000
	<u>\$33,341,274</u>	<u>\$12,291,815</u>	<u>\$30,474,379</u>	<u>\$20,616,443</u>

*Less cancellations and reductions in amounts authorized.

B. By Provinces

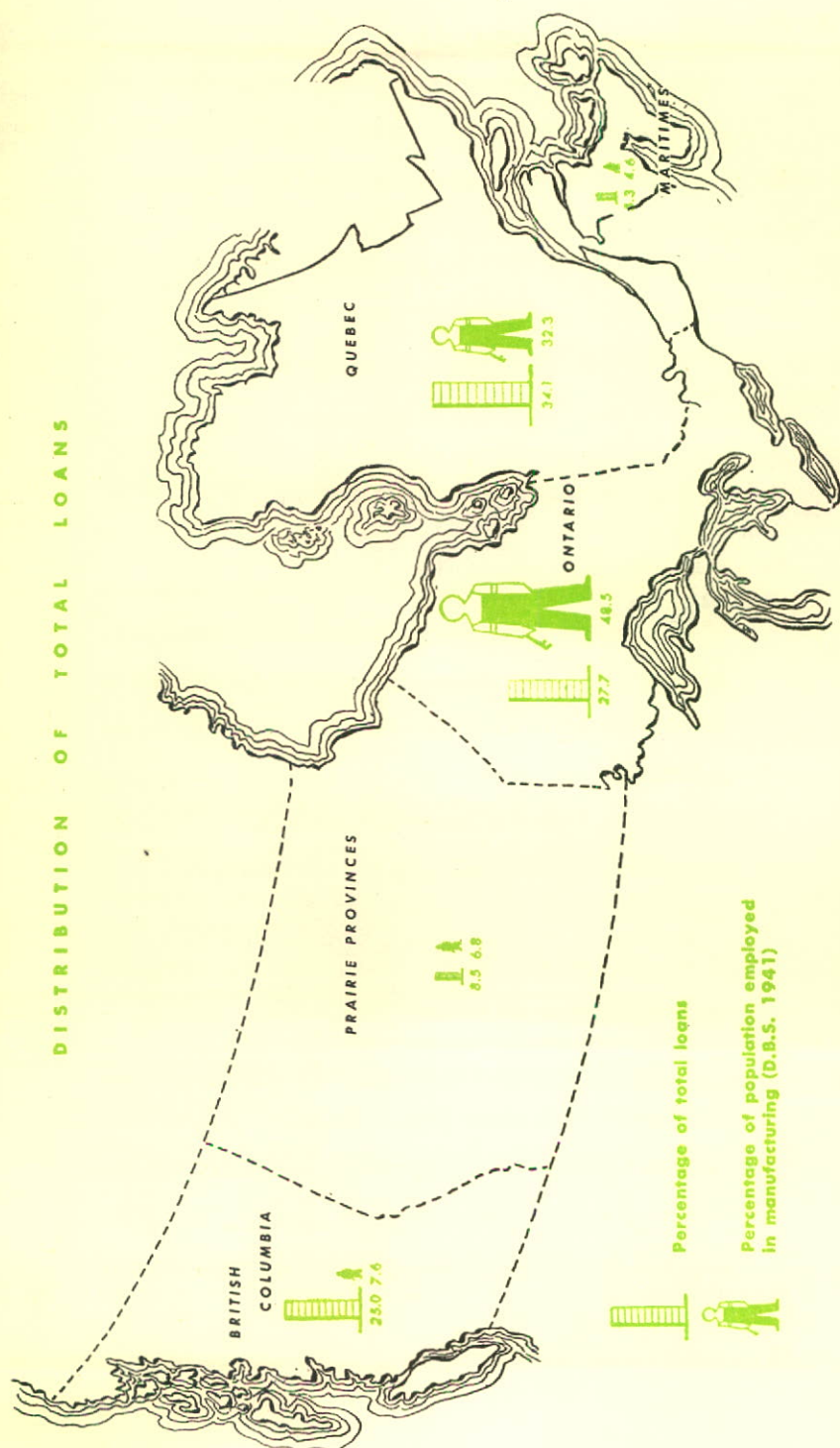
	GROSS AMOUNT AUTHORIZED TO DATE*	GROSS AMOUNT AUTHORIZED DURING THE FISCAL YEAR 1948.	CURRENT AUTHORIZA- TIONS AT SEPTEMBER 30, 1948.	AMOUNT OUTSTAND- ING AS AT SEPTEMBER 30, 1948.
Prince Edward Island . . . \$	39,000	\$ 39,000	\$ 39,000	\$ 35,200
Nova Scotia	681,900	285,250	436,000	335,500
New Brunswick	823,500	333,000	750,500	580,258
Quebec	11,733,250	4,162,150	10,892,850	6,875,011
Ontario	11,676,664	3,380,584	10,711,250	8,470,759
Manitoba	1,508,684	539,955	1,345,229	818,907
Saskatchewan	268,800	32,000	250,800	181,133
Alberta	2,251,864	468,964	2,049,700	1,357,624
British Columbia & Territories	4,357,612	3,050,912	3,999,050	1,962,051
	<u>\$33,341,274</u>	<u>\$12,291,815</u>	<u>\$30,474,379</u>	<u>\$20,616,443</u>

*Less cancellations and reductions in amounts authorized.

In the above tables we have enlarged the classification hitherto used for industrial enterprises, and have added to the statistical information previously given in my reports, to show for each industrial classification and each province the amount authorized to date and the amount authorized during the year under review, together with current authorizations and amount outstanding, as at the end of the year. It will be noted that, with one exception, the Bank's loans cover the complete range of our industrial classification, which follows the lines of the accepted international standard industrial classification.

Taking the percentage of the population engaged in manufacturing in each economic area of the country as a fair indicator, we find that the Bank's operations follow fairly well the pattern of industrial development in Canada. During the past year, both the Maritimes and British Columbia received an increased percentage of the Bank's total loans authorized.

DISTRIBUTION OF TOTAL LOANS



Percentage of total loans

Percentage of population employed in manufacturing (D.B.S. 1941)

These relative positions may be seen from the following table, which shows the percentage of the Bank's total loans authorized for each area since the Bank's inception, the same percentage for the past year and the percentage of the population employed in manufacturing.

AREA	% OF TOTAL GROSS AUTHORIZED LOANS		% OF POPULATION EMPLOYED IN MANUFACTURING IN 1947
	To Date	Fiscal Year 1948	
Maritimes	4.6	5.3	4.6
Quebec	35.3	34.1	32.3
Ontario	35.0	27.7	48.5
Prairies	12.1	8.5	6.8
British Columbia	13.0	25.0	7.6

The following table classifies the current authorizations on the books of the Bank as at September 30, 1948 by size. It will be noticed that the largest number of authorized credits continues to be in the \$5,001 to \$25,000 category.

	CURRENT AUTHORIZATIONS AS OF SEPTEMBER 30, 1948	NUMBER OF CREDITS
\$ 5,000 and under	\$ 82,750	22
5,001 to \$ 25,000	2,514,550	173
25,001 to 50,000	2,849,729	72
50,001 to 100,000	5,487,700	73
100,001 to 200,000	6,469,750	42
Over \$200,000	13,069,900	21
	<u>\$30,474,379*</u>	<u>403</u>

*Because of partial repayments on account of current authorizations the net authorizations were \$26,505,522 of which those in excess of \$200,000 totalled \$10,813,225.

Profit and Loss Income for the year amounted to \$893,317.80 as compared with \$798,192.92 in 1947. Interest on loans, investments and guarantees, other than Government of Canada securities, increased from \$401,044.95 in 1947 to \$747,152.40, and now constitutes the major source of the Bank's total income. Interest on the Bank's holdings of Government of Canada securities amounted to \$293,597.29 as against \$210,264.70 in 1947, the increase being due to somewhat larger average holdings of such securities. As a result of the decline in market prices of Government of Canada securities which took place in January and February, 1948, the Bank had a loss on sales of such securities of \$148,849.06 as compared with a profit of \$186,490.81 from this source in 1947, and in addition it was necessary to make provision of \$325,950.94 out of profits for this fiscal year to reduce the book value of the Bank's portfolio of Government of Canada securities to market value at September 30th. No such provision was required in previous years. After taking into consideration previous years' profits on sales amounting in the aggregate to \$371,148.35, and this year's loss on sales and provision to reduce the book value aggregating \$474,800, the average return on the Bank's holdings of Government of Canada securities during the four years of its operations, has been 2.18% per annum. Total expenses during the past year, of which details are shown in the attached statement, amounted to \$398,655.66 as compared with \$288,512.88 in 1947. The profit (before appropriations) for the fiscal year 1948 amounted to \$494,662.14 as against \$509,680.04 in 1947.

As I mentioned in last year's report, the Reserve for Losses is available to meet specific losses as they occur. During the year \$34,340.12 has been used for this purpose. In view of the increase in the Bank's loans, investments and guarantees during the year, and of the fact that there were certain accounts in which there was an element of doubt, it was deemed appropriate to set aside out of this year's profits an amount sufficient to bring the Reserve for Losses up to a figure of \$300,000.

Organization

This year saw an innovation in regard to the meetings of the Board of Directors. The Board felt there would be a considerable advantage to them if they could visit some of the wide range of industrial enterprises being financed by the Bank. To achieve this, the meeting scheduled for September was held in Vancouver and the occasion was taken to visit the plants of a number of the Bank's customers and other British Columbia industrial projects. En route to Vancouver, a stop-over at Winnipeg permitted the Board to visit several plants in the Winnipeg area. The Board felt that a useful purpose was served by thus viewing at first hand the effect of operations of the Bank, and as occasion permits the precedent established with the Vancouver meeting will be extended to other areas of Canada.

Since my last report there has been a net addition of 15 to the staff of the Bank, which now numbers 92. Of that number 48 are male and 44 are female employees. It continues to be characteristic of the Bank's male staff that a high proportion

are what might be described as specialist, technical or professional personnel. It is with a great deal of pleasure that I record my appreciation of the high quality of service rendered by the staff during the past year.

General The past year has again been marked by a very high level of capital investment in Canada—not high in relation to the amount of new industrial plant, housing and other capital facilities which all Canadians would like to see going forward, but high in relation to the current material and labour resources of our construction and equipment industries.

Due to rising costs the dollar totals in all the major categories of new capital investment will be higher in 1948 than in 1947, but so far as the physical rate of new capital investment in industry—i.e. manufacturing—is concerned there seems to have been no increase over last year. In part this may be due to the appearance of some hesitation in the retail demand for certain non-durable consumer goods. Although I believe that most of the capital development which has occurred in recent years has been on a sound basis there are somewhat more frequent examples than there were a year ago of new or enlarged enterprises which are not meeting with success. It is certainly desirable from every point of view that during the present buoyant state of affairs, investment plans be very carefully scrutinized.

The trends discussed in this report are reflected in the result of the Bank's operations for the year. For reasons which

have already been mentioned, the amount of new business accepted by the Bank during the year has not shown the increase which might ordinarily have been expected at this stage in the Bank's development. However, having extended credit facilities to 586 firms covering a wide variety of industrial operations, many quite new to the industrial economy of Canada, I think it may be said that the Bank has been playing its part in the large task involved in the re-equipment and expansion of Canadian industry.

I am, Dear Sir,
Yours faithfully,
G. F. TOWERS, President

Statement of Profit and Loss

for the year ended 30th September 1948

Income:

On Government of Canada securities:

Interest	\$293,597.29	
Less loss on sales	148,849.06	\$144,748.23

On loans, investments and guarantees	747,152.40	
All other	1,417.17	
		<u>\$893,317.80</u>

Expenses:

Salaries	\$265,440.26	
Pension fund and unemployment insurance	33,467.78	
Investigation and supervision expenses (including travel)	15,131.81	
Travelling expenses—general	10,126.87	
Rental and other costs—leased premises	29,580.15	
Depreciation of office equipment	4,783.05	
Telephones and telegrams	8,281.10	
Office supplies, expenses	12,455.21	
Directors' fees	3,600.00	
Auditors' fees, expenses	6,000.00	
All other operating expenses	9,789.43	398,655.66

Profit before deducting appropriations referred to below	\$494,662.14	
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Deduct: Provision to reduce Government

of Canada securities to market value	\$325,950.94	
Amount appropriated as reserve against loans, investments and guarantees	134,340.12	460,291.06

Balance transferred to reserve fund	<u>\$ 34,371.08</u>	
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RESERVE FOR LOSSES

Balance 30th September 1947	\$200,000.00	
Appropriation from profits for year ended 30th September 1948	134,340.12	
	<u>\$334,340.12</u>	
Less bad debts written off	34,340.12	
Balance 30th September 1948	<u>\$300,000.00</u>	

RESERVE FUND

Balance 30th September 1947	\$749,241.01	
Amount transferred from statement of profit and loss	34,371.08	
Balance 30th September 1948	<u>\$783,612.09</u>	

Statement of Assets and Liabilities

as at 30th September 1948

LIABILITIES

Capital: Authorized, issued and paid up—	
250,000 shares par value \$100 each	\$25,000,000.00
Reserve fund	783,612.09
Contingent liability under guarantees and under- writing agreements	3,080,524.60
All other liabilities	7,151.86
Reserve for losses	300,000.00
	<u>\$29,171,288.55</u>

ASSETS

Cash on hand and deposits with other banks . \$	33,422.10
Government of Canada securities at values not exceeding market	8,224,413.67
Loans and investments	17,535,918.49
Guarantees and underwriting agreements as per contra	3,080,524.60
All other assets	297,009.69
	<u>\$29,171,288.55</u>

G. F. TOWERS, President H. R. EXTENCE, Chief Accountant

AUDITORS' REPORT • We have made an examination of the statement of assets and liabilities of the Industrial Development Bank as at 30th September 1948 and have received all the information and explanations we have required. We report that in our opinion it correctly sets forth the position of the Bank at 30th September 1948, according to the best of our information and as shown by the books of the Bank.

J. G. GLASSCO, F.C.A., JEAN VALIQUETTE, C.A.,
of the firm Clarkson Gordon & Co. of the firm Anderson & Valiquette.

Ottawa, Canada, 15th November 1948.

INDUSTRIAL DEVELOPMENT BANK

Incorporated under the Industrial Development Bank Act, 1944

HEAD OFFICE—OTTAWA, ONT.

GENERAL MANAGER'S OFFICE—MONTREAL, QUE.

Board of Directors

G. F. TOWERS, C.M.G., *President, Ottawa, Ont.*



E. G. BAKER, *Toronto, Ont.*

W. D. BLACK, *Member of the Executive Committee, Hamilton, Ont.*

W. C. CLARK, C.M.G., *Member of the Executive Committee, Ottawa, Ont.*

G. G. COOTE, *Nanton, Alta.*

D. GORDON, C.M.G., *Member of the Executive Committee, Ottawa, Ont.*

N. A. HESLER, *Sackville, N.B.* J. L. HOLMAN, *Summerside, P.E.I.*

A. STEWART McNICHOLS, *Montreal, Que.*

R. H. MILLIKEN, K.C., *Regina, Sask.* C. J. MORROW, *Lunenburg, N.S.*

A. C. PICARD, *Quebec, Que.*

L. P. SAINT-AMOUR, *Ottawa, Ont.* E. J. TARR, K.C., *Winnipeg, Man.*

A. C. TAYLOR, C.B.E., *Vancouver, B.C.*

Officers



G. F. TOWERS, C.M.G., *President*

S. R. NOBLE, O.B.E., *General Manager*

D. G. MARBLE, C.B.E., *Secretary*

A. N. H. JAMES, *Executive Assistant*

L. F. MUNDY, *Deputy Secretary*

H. R. EXTENCE, *Chief Accountant*

GENERAL MANAGER'S OFFICE

ALDRED BUILDING, PLACE D'ARMES, MONTREAL, QUE.

S. R. NOBLE, O.B.E., *General Manager*

A. N. H. JAMES, *Executive Assistant*

C. I. STUART, *Deputy Secretary*

L. VIAU, *Deputy Secretary*

BRANCHES

TORONTO, ONT., 85 RICHMOND STREET WEST • J. C. INGRAM, *Supervisor*

WINNIPEG, MAN., 356 MAIN STREET • D. T. MUSKETT, *Supervisor*

VANCOUVER, B.C., 736 GRANVILLE STREET • N. C. TOMPKINS, *Supervisor*

